Management Advisory Report: The Internal Revenue Service Needs to Implement Policies and Procedures to Ensure Compliance With the Rural Development Act of 1972

May 2002

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INSPECTOR GENERAL
for TAX
ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

May 9, 2002

MEMORANDUM FOR CHIEF, AGENCY-WIDE SHARED SERVICES

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Management Advisory Report - The Internal Revenue Service Needs to Implement Policies and Procedures to Ensure Compliance With the Rural Development Act of 1972 (Audit # 200210013)

This report presents the results of our audit to evaluate the policies and procedures established by the Internal Revenue Service to comply with the Rural Development Act of 1972 (RDA) (as amended)[1] requirements for locating new offices and other facilities in rural areas, and if the IRS is in compliance with all laws, regulations, Executive Orders, and Treasury Directives regarding RDA requirements. This audit was conducted as required by Section 647 of the Treasury and General Government Appropriations Act of 2002.[2]

Summary

The IRS has not established any policies or procedures to ensure compliance with the requirements of the RDA. In addition, the Department of the Treasury has not exercised the required oversight of the IRS with respect to meeting RDA requirements. Our review of a random sample of 53 of 109 additions to the building list that occurred between March 1, 1999, and January 31, 2002, did not identify any relocation that should have been made to a rural area. However, we recommended that the IRS establish policies and procedures to consciously comply with the RDA and the Treasury Directive, Location of New Offices and Facilities in Rural Areas (TD 72-03), and to document such consideration of rural areas in the project folders.

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[1] 7 U.S.C § 2204b-1(b) (2000).
[2] Pub. L. No. 107-67 § 647.

Management's Response: Agency-Wide Shared Services (AWSS) management agreed to establish a policy to ensure that rural areas are given first consideration when selecting sites for new offices. AWSS has already included a link to TD 72-03 on its website for reference by the staff involved in space acquisition, and drafted a policy that addresses the requirements of the RDA, TD 72-03, and Executive Orders governing the location of space.

Copies of this report are also being sent to the IRS managers who are affected by these recommendations. Please contact me at (202) 622-6510 if you have questions or Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs) at (202) 622-8500.

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Management Advisory Report: The Internal Revenue Service Needs to Implement Policies and Procedures to Ensure Compliance With the Rural Development Act of 1972

Background

The Treasury and General Government Appropriations Act of 2002[1] requires that each Inspector General determine the policies and procedures in place for each department or agency to give first priority to locating new offices and other facilities in rural areas as directed by the Rural Development Act of 1972 (RDA) (as amended).[2] The results of this review are to be reported to the Senate Committee on Appropriations by May 10, 2002.

The Treasury Department issued a Treasury Directive (TD), Location of New Offices and Facilities in Rural Areas (TD 72-03), in 1980 (superseded in 1989) to meet the requirements of the RDA. This directive stated that the policy of the Department of the Treasury (and all bureaus) is to give first priority to locating new Treasury facilities in rural areas unless there are substantial reasons for not doing so. The directive requires the bureaus to obtain written approval to deviate from the requirements of the directive.

The General Accounting Office issued a report on the need for several agencies to adhere more closely to the Rural Development Act.[3] The Internal Revenue Service (IRS) responded to this report in June 2001 indicating its knowledge of the law and its requirements.

The Real Estate and Facilities Management Division (REFM) of Agency-Wide Shared Services (AWSS) is responsible for real estate acquisition and management for the IRS. This review was conducted in the IRS Headquarters Office in Washington, DC, between December 2001 and March 2002. The review was conducted in accordance with the President's Council on Integrity and Efficiency's *Quality Standards for Inspections*. Detailed information on our objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

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[1] Pub. L. No. 107-67 § 647.
[2] 7 U.S.C. § 2204b-1(b) (2000).
[3] *Agencies Should Pay More Attention to Costs and Rural Development Act* (GAO-01-805, dated July 2001).

The Internal Revenue Service Has Not Established Polices or Procedures to Comply With the Rural Development Act and Has Not Followed Treasury Directive 72-03

The IRS has not established any policies or procedures, as required by the RDA and TD 72-03, to ensure that rural areas are given first consideration when selecting sites for new offices and other facilities. Also, the IRS did not submit written requests for exemption from the RDA requirements on moves to urban areas to the appropriate Treasury or IRS officials as required by TD 72-03.

While Treasury did establish policy and procedures to meet the requirements of the RDA, it has not met its oversight requirements with respect to the IRS. Treasury did not ensure that the IRS established instructions and controls to comply with TD 72-03 and did not conduct periodic reviews of bureau implementing instructions and records for compliance with the directive.

The RDA requires all departments and agencies to establish and maintain policies and procedures giving first priority to locating new offices and other facilities in rural areas (a city, town or unincorporated area with a population of no more than 10,000 inhabitants). In addition to the RDA, agencies must also adhere to Code of Federal Regulations (CFR) 41, Part 102-73 when establishing new offices.

The CFR makes each agency responsible for identifying where it locates its activities, consistent with mission and program requirements, and laws and regulations. Agencies are first required to consider government owned space before leasing privately owned land and buildings. The agencies also must give first priority to locating facilities in rural areas unless their mission or program requirements call for location in an urban area.

TD 72-03 established a departmental policy giving first priority to locating new Treasury facilities in rural areas unless there are substantial reasons for not doing so. Considerations include:

- Efficient performance of the Department's missions and programs, as well as the nature and functions of the facilities involved, with due regard for the convenience of the public served and improvement of safe and healthful working conditions for employees.

- Environmental and socioeconomic impact on employees and communities involved.
- Need for development and redevelopment of areas consistent with state, regional, and local plans and programs.
- Use of existing government-owned facilities, which are adequate or economically adaptable to the efficient performance of the Department's programs.

This policy does not apply to:

- Facilities acquired pursuant to statutory authority.
- Facilities required for temporary occupancy of one year or less.
- Vacant land acquisitions on which no construction is planned.
- Permanent post of duty facilities used intermittently by personnel whose duties require their absence from the office for extended periods of time.

TD 72-03 requires either Treasury or bureau approval to establish or relocate facilities in other than rural areas, depending on the significance of the move. Treasury approval is required for a major facility acquisition; a significant organizational change involving geographic, regional adjustments; or a program activity that involves, in its entirety, fifty or more employees. In all other instances, the appropriate bureau official may approve relocation to other than a rural area.

The Treasury is to ensure that bureaus establish instructions and controls to comply with the provisions of TD 72-03. Treasury also must conduct periodic reviews of bureau implementing instructions and records and provide recommendations when bureau procedures and documentation are found in noncompliance or incomplete.

We reviewed a random sample of 53 of 109 buildings added to the IRS Building List between March 1, 1999, and January 31, 2002, to determine the effect of the IRS non-compliance with the RDA. Each involved a move into space 1000 square feet or more. The sampling methodology we used is presented in Appendix IV.

While the IRS did not establish procedures to ensure compliance with the RDA, we found that this did not result in relocations that should have been placed in a rural area. Our review of the selected building sites described above found that in 49 of 49 instances involving the relocation of employees to a new site, the IRS correctly located the office because the relocation met one of the considerations or exemptions in TD 72-03. In one instance the move was to a rural area. In four instances no personnel were moved (lease renewal, training or storage space).

While our review did not detect any decisions that led to an office being located incorrectly in an urban rather than a rural area, we believe that the IRS should formalize its site selection process to ensure that proper consideration is given to locating offices in rural areas. Doing so will provide ready justification for any site selected, rural or urban.

Recommendation

1. The Chief, AWSS, should ensure the REFM establishes policies and procedures, consistent with the RDA and Treasury Directive 72-03, to ensure consistent consideration is given to locating new offices and other facilities in rural areas. The procedures should require that project files contain documentation to show that a rural area was considered and the reasons for not selecting a rural site.

Management's Response: The Deputy Chief, AWSS, agreed to establish a policy to ensure that rural areas are given first consideration when selecting sites for new offices. AWSS has already included a link to TD 72-03 on its website for reference by its staff involved in space acquisition, and drafted location policy that addresses the requirements of RDA, TD 72-03, and Executive Orders governing the location of space.

Appendix I

Detailed Objective, Scope, and Methodology

Our objective for this review was to determine if the Internal Revenue Service (IRS) has established adequate policies to comply with the Rural Development Act of 1972 (RDA) (as amended)[1] requirements for locating new offices and other facilities in rural areas and if they are in compliance with all laws, regulations, Executive Orders, and Treasury Directives (TD) regarding RDA requirements. This audit was conducted in compliance with the requirements of the Treasury and General Government Appropriations Act of 2002.[2] Results of this review will be reported to the Senate Committee on appropriations, as required by the Treasury and General Government Appropriations Act of 2002.

To accomplish this objective we performed the following audit steps:

I. Contacted the Department of the Treasury, Office of Asset Management to determine:

   A. If the IRS had submitted their procedures and policies to the Department of the Treasury for review.

   B. If the IRS had submitted requests for exceptions from the RDA requirements.

   C. If Treasury had conducted any reviews of the IRS with regard to compliance with the Treasury Directive, Location of New Offices and Facilities in Rural Areas (TD 72-03).

II. Contacted the office of the IRS Director, Real Estate and Facilities Management to determine:

   A. The procedures followed by the IRS to comply with the RDA and TD 72-03.

   B. The IRS approving authority for deviations from the RDA.

   C. The procedures followed by the IRS in acquiring, leasing or constructing new office space.

   D. All new IRS acquisitions, leases or constructions of 1000 square feet or more from March 1, 1999, to January 31, 2002, and relocations from one Federal site to another distant Federal site.

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[1] 7 U.S.C. § 2204b-1(b) (2000).
[2] Pub. L. No. 107-67 § 647.

III. Reviewed a random sample of buildings added to the Building List from March 1, 1999, to January 31, 2002, to determine if the reason for site selection is valid when other than a rural area was selected. Sample selection methodology is presented in Appendix IV.

Appendix II

Major Contributors to This Report

Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs)
Kevin Riley, Acting Director
David Robben, Acting Audit Manager
David Cox, Senior Auditor
Gene Luevano, Auditor

Appendix III

Report Distribution List

Commissioner N:C
Director, Real Estate and Facilities Management Division A:RE
Chief Counsel CC
National Taxpayer Advocate TA
Director, Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O
Office of Management Controls N:CFO:F:M

Appendix IV

Sample Selection Methodology

The following steps were performed in taking a random sample of project folders for review in this audit:

1. We compared a building list from March 1999 to one from January 2002 to identify buildings meeting the following criteria:

    a. On the 2002 building list.

    b. Not on the March 1999 building list.

    c. Involved 1000 or more square feet.

    d. Not designated as parking, child-care or lease renewal space.

    By making the selection in this manner, we had a better chance of identifying moves to a new locale rather than selecting lease renewals or the procurement of additional space within an existing building.

2. We identified the sample size to review using the following data from the Arkin Handbook of Sampling for Accounting and Auditing (Copyright 1963):

    a. Expected rate of occurrence: Not over 5 percent

    b. Confidence level: 90 percent

    c. Reliability: $\pm$ 4 percent

3. There were 109 entries that met the criteria for step 1, resulting in a sample size of 53. An over sampling of nine was made to allow for missing files or cases not meeting Rural Development Act criteria.

4. In EXCEL we used the TOOLS/DATA ANALYSIS/SAMPLING feature to randomly identify the cases to be reviewed.

Appendix V

Management's Response to the Draft Report

DEPUTY CHIEF
AGENCY-WIDE
SHARED SERVICES

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

RECEIVED
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May 6, 2002

MEMORANDUM FOR PAMELA J. GARDINER
DEPUTY INSPECTOR GENERAL FOR AUDIT, TIGTA

FROM: Gregory D. Rothwell Gregory D. Rothwell
Deputy Chief, Agency-Wide Shared Services

SUBJECT: Draft Management Advisory Report (#2002-10-013): IRS Needs to Implement Policies and Procedures to Ensure Compliance With the Rural Development Act (RDA) of 1972, April 29, 2002

AWSS agrees with the subject report and below is our response to the report recommendation.

RECOMMENDATION: The Chief, AWSS, should ensure that Real Estate and Facilities Management (REFM) establishes policies and procedures, consistent with the RDA and Treasury Directive (TD) 72-03, to ensure consistent consideration is given to locating new offices and other facilities in rural areas. The procedures should require that project files contain documentation to show that a rural area was considered and the reasons for not selecting a rural site.

CORRECTIVE ACTIONS: REFM has 1). linked TD 72-03 to their website for reference by those involved in space acquisition, and 2). drafted policy that addresses requirements of RDA, TD 72-03, and Executive Orders governing the location of space. REFM will finalize this policy and issue guidance by the scheduled implementation date.

IMPLEMENTATION DATE: June 14, 2002

RESPONSIBLE OFFICIAL: Director, REFM, Agency-Wide Shared Services

If you have any additional concerns, please contact me at (202) 622-7500 or Ron Stephen, Director, REFM at (202) 283-9400. For matters addressing audit follow-up and liaison, please call Greg Rehak on (202) 622-3702.